



OFFICE OF
INSURANCE COMMISSIONER

TECHNICAL ASSISTANCE ADVISORY (TAA)
T 05 – 01

To: Domestic Insurers

Subject: Requests for Permitted Accounting Practices

Date: January 18, 2005

This TAA provides guidance for preparing and submitting requests for permitted accounting practices.

BACKGROUND

Title 48 RCW defines certain financial accounting and reporting practices for domestic insurers (state prescribed practices). Title 48 RCW also requires domestic insurers to comply with the NAIC *Accounting Practices and Procedures Manual* (Manual) or Statutory Accounting Principles to the extent it does not directly conflict with Title 48 RCW.

Over the years, the commissioner has recognized special circumstances affecting individual insurers, and, where authorized, has approved deviations from state prescribed practices or the Manual. Those deviations are generally referred to as permitted accounting practices.

At its quarterly meeting in December 2004, the NAIC adopted a new section in the preamble to the Manual which became effective January 1, 2005. That new section is:

**Accounting Practices and Procedures Manual
Preamble**

IX. Permitted Accounting Practices

55. In instances where the domiciliary state regulator is considering approval of a request for an accounting practice that departs from the NAIC Manual and state prescribed accounting practices, the domiciliary regulator must provide Notice as defined in paragraphs 56 and 57.
56. No domiciliary state regulatory authority shall grant an approval to use an accounting practice, as described in paragraph 55, unless it provides Notice at least 30 days in advance of such approval (but in no event less than 30 days from the financial statement filing date) or such shorter period with an explanation for the shorter notice period, but never less than 5 days.
57. This Notice must disclose the following information regarding the requested accounting practice request to all other states in which the insurer is licensed prior to the financial statement filing date:
- a. The nature and a clear description of the permitted accounting practice request;

- b. The quantitative effect of the permitted accounting practice request with all other approved permitted accounting practices currently in effect as disclosed in *Appendix A-205: Illustrative Disclosure of Differences Between NAIC Statutory Accounting Practices and Procedures and Accounting Practices Prescribed or Permitted by the State of Domicile*, for that insurer in the domiciliary state;
- c. The effect of the requested permitted accounting practice on a legal entity basis and on all parent and affiliated United States insurance companies, if applicable; and
- d. Identify any potential effects on and quantify the potential impact to each financial statement line item affected by the request. The potential impact may be determined by comparing the financial statements prepared in accordance with NAIC SAP and the financial statements incorporating the requested permitted accounting practice.

58. The granting of approval for an accounting practice request by the domiciliary state regulator does not preempt or in any way limit any individual state's legislative and regulatory authority.

Compliance with the new preamble section and NAIC interpretation of that section will be a subject of future accreditation reviews of the Office of the Insurance Commissioner (OIC).

On December 29, 2004, the OIC received the final language of the new preamble section and guidance for OIC's reporting obligations. The OIC must give at least 30 days notice of proposed new permitted accounting practices to every state where the insurer does business. At a minimum those notices to other states must include:

- Detailed description of the permitted accounting practice request, including the specific NAIC Statutory Accounting Principles or state prescribed practices from which the practice departs;
- Whether the permitted accounting practice was granted the previous year;
- The financial statement filing date in which the permitted accounting practice will be reflected and the timeframe for which the permitted accounting practice is granted (e.g., indefinitely, until withdrawn, specific date – month, day, year);
- Explanation for providing less than 30 days advance notice if the email is distributed less than 30 days from the financial statement filing date;
- The financial statement line items the permitted accounting practice will affect and the respective financial impact for each line item identified;
- The total financial impact to capital and surplus for all approved/requested permitted accounting practices;
- The effect of the permitted accounting practice on a legal entity basis and on all parent and affiliated U.S. insurance companies, if applicable;
- Whether the permitted accounting practice is approved or pending approval.

INTERPRETATION

Effective January 1, 2005, every request for a permitted accounting practice must be in writing and received by the OIC more than 30 days prior to the proposed effective date. A request for extension of a current permitted accounting practice will be considered as a request for a new permitted practice. Currently existing permitted accounting practices that do not have a specific termination date will expire upon any change of control of the insurer.

Each request for a permitted accounting practice must be received by the OIC more than 30 days prior to the proposed effective date and contain, at a minimum, all of the following information:

- Proposed effective date and first filed financial statement in which practice will be reported;
- Detailed description of the permitted accounting practice requested, including specific citation to the NAIC Statutory Accounting Principles and/or state prescribed practices from which the permitted accounting practice departs;
- Periods, if any, in which permitted practice was previously in effect;
- As of date of financial statement which will reflect the proposed permitted accounting practice;
- Proposed period in which permitted accounting practice will be effective (e.g. indefinite, until withdrawn, specific date);
- Explanation for filing less than 30 days before proposed effective date;
- Specific identification of financial statement impact of proposed permitted accounting practice;
- Specific identification of impact on capital and surplus of proposed and any other permitted practices;
- Capital and surplus effect of permitted accounting practice, on a legal entity basis, on domestic insurer, its ultimate and intermediate parents and all affiliated U.S. insurers.

Requests for permitted accounting practices may be made by completing and submitting the attached document in Exhibit A to:

Company Supervision Division
Office of the Insurance Commissioner
Post Office Box 40259
Olympia, Washington 98504-0259

If this form is used to request a permitted accounting practice, a copy will be returned noting commissioner action on the request. The commissioner may request additional or supplementary information concerning the proposed permitted accounting practice.